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TR	XMB 4	AIR
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OSD 34	USIA	NSA 3
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TO : DEPARTMENT OF STATE

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ANALYSIS BRANCH

INFO : American Embassy TRIPOLI

FROM : American Embassy Office BENGHAZI

DATE: July 10, 1972

SUBJECT: Nationalization of BP - Status Report Five

REF : Benghazi 152 of April 3, 1972

DEPARTMENT PASS TO AMERICAN EMBASSY LONDON

SUMMARY: Up-date of previous reporting on relations among BP, Hunt and Arab Gulf. Libyans find new customers for Sarir crude and reduce Hunt offtake. Arab Gulf continues to rely on Western expertise.

The Libyan Government scored a dramatic break-through in its efforts to market nationalized Sarir crude when Petroleum Minister Mabruk signed a deal with the Soviet Government in May. The first Soviet tankers arrived at Tobruk on schedule in early June to carry an average of 55,000 barrels per day to Odessa. There were also two shipments to Bulgaria in June and one small shipment to Yugoslavia. The total offtake did not, however, rise to the 100,000 b/d which Arab Gulf Exploration Company notified its American partner, Nelson Bunker Hunt, that it would require.

Nonetheless, Hunt has suffered major production cutbacks, first to 150,000 b/d and then to 116,000 b/d. By the end of June, the total production of Sarir field was averaging 180,000 b/d out of a total allowable of 232,000 b/d. It seems likely that a lack of demand by Arab Gulf's customers, rather than any technical factors, held production at the lower figure. Technical problems would arise, however, if

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Drafted by: OIC:DLMack:ikv

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REVIEWED BY CJ DATE 3/4/82

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the Libyans raised the allowable and attempted to increase production back toward the average of 450,000 b/d which prevailed before nationalization.

The terms of Libyan crude sales to its new customers are unknown, but there are strong indications that barter deals are involved for all three. Arms from the Soviets, consumer goods from the Bulgarians and development projects from the Yugoslavs are examples of what Libya may be receiving. Whatever the terms, Arab Gulf is now getting cash from some source, if only from the Libyan government. Since Soviet liftings began, Arab Gulf has quietly dropped a somewhat desperate request that Hunt advance 100 per cent of the concession's operating expenses.

The Libyans have continued to show some interest in a settlement with BP. Perhaps for tactical reasons, however, they seem less concerned since Sarir crude went on stream to the Soviets. Petroleum Minister Mabruk has shown a blustering confidence and publicly threatened the Libyan interests of any Western companies which support BP's legal efforts to keep nationalized crude out of the marketplace.

Four American oil experts have joined Arab Gulf's permanent staff in technical fields and the company is trying to recruit others. Roughly thirty British technicians continue to play key roles at Sarir field and Hariqa terminal installations. Nonetheless, Libyan officials publicly belittle the contribution of foreign experts. Nationalization of BP and the success of Arab Gulf is tied up in Libyan image making with the claim of economic independence from the West.

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Department of State TELEGRAM

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PAGE 01 TRIPOL 01119 121844Z

45
ACTION AF-04

INFO OCT-01 SS-14 E-03 NSC-10 NSCE-00 INR-05 CIAE-00
NSAE-00 T-01 PRS-01 OEP-01 RSC-01 RSR-01 EUR-10
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FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 9013
INFO AMEMBASSY BENGHAZI
AMEMBASSY LONDON

C O N F I D E N T I A L TRIPOLI 01119

LIMDIS

SUBJ: PETROLEUM DEVELOPMENTS

REF: TRIPOLI 930; TRIPOLI 1012; STATE 124332

SUMMARY: IN MEETING WITH AMBASSADOR [ ] REPORTED CANCELLATION OF OIL COMPANY REPS' MEETING WITH RCC MEMBER JALLUD WHICH HAD BEEN SCHEDULED FOR JULY 15. [ ] BELIEVES GELSENBERG HAS SIGNED PARITY AGREEMENT WITH LARG, WITH "EASY PAY" PROVISION SIMILAR TO THAT GAINED BY OXY, AND ASSERTED THAT EXTENSION OF "CALIFORNIA" CONSERVATION FORMULA TO OTHER LIBYAN PRODUCERS WILL NOT HURT THEM AS MUCH AS OXY. END SUMMARY.

1. [ ] MET WITH AMBASSADOR AND ECON OFFICER [ ] SAID THAT ALL PETROLEUM REPS HAD BEEN CONVOKED TO MEET WITH RCC MEMBER MAJOR JALLUD JULY 15 AS FOLLOW-UP TO JUNE 9 SESSION (TRIPOLI REFTELS). [ ]

TRIPOLI 1119 12/21/72

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2. IN OTHER RECENT PETROLEUM DEVELOPMENTS,

GELSENBERG HAS SIGNED AGREEMENT SIMILAR TO THAT OF OCCIDENTAL, I.E. GELSENBERG WILL PAY ITS RETROACTIVE OBLIGATIONS BY AN INCREASE IN PER BARREL PRICE UNTIL FEB 1, 1973, AT WHICH TIME THE REMAINDER OF OBLIGATIONS WILL BE DUE.

3. IN CONNECTION WITH OCCIDENTAL'S CUT IN ALLOWABLE, DID NOT BELIEVE OTHER LIBYAN PRODUCERS WOULD BE AS HEAVILY AFFECTED, EVEN IF THE LARG CHOOSES TO APPLY THE "CALIFORNIA" FORMULA ACROSS THE BOARD. HE SPECULATED THAT BE FORCED TO CUT 50-100,000 BARRELS A DAY AND THAT

HARDLY BE AFFECTED AT ALL. HE DID NOT EXPECT OCCIDENTAL TO HAVE MUCH SUCCESS IN REGAINING ANY OF THE CUTBACK. HE STATED THAT MOST LIKELY OCCIDENTAL WOULD BE COVERED FOR ITS CUTBACK BY INDUSTRY SHARING AGREEMENTS.

AGDS.

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INTELLIGENCE NOTE

BUREAU OF INTELLIGENCE AND RESEARCH

July 14, 1972

CURRENT OIL SITUATION

Events of the last few weeks on the international oil scene indicate a slight hardening by some OPEC (Organization of Petroleum Exporting Countries) members in their dealings with the oil companies. However, a major confrontation - another nationalization or significant cut-off of supply - seems unlikely at this time. A brief description of current oil issues follows.

Participation

The Saudi Arabian Government has publicly stated that "the companies will be held responsible for their actions if current (participation) negotiations fail." There has been almost no progress in negotiating the details of participation since Aramco shareholders (Esso, Socal, Texaco, and Mobil) accepted the principle of 20 percent participation in crude production by the Saudi Arabian and other Persian Gulf governments last March. The Saudi warning echoes one issued by the OPEC Ministerial Conference on June 26 and 27 in Vienna. The Conference communique also referred to possible unilateral actions by member countries. This presumably means acquisition of at least 20 percent participation by legislation if the companies fail to be more forthcoming in the negotiations.

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Iran's decision to break ranks with the other OPEC Persian Gulf members on the participation issue, by agreeing to extend the concession held by the Western oil consortium operating in Iran until 1994 without formal equity participation, severely damaged what little remaining unity there was on the issue in OPEC. With Iraq, Libya, Algeria, Nigeria, and Venezuela all having adopted their own approach to participation, it appears that, at least for the present, OPEC will leave further action on this front to its individual members.

IPC - Iraq

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Libya

Another OPEC member, Libya, has cut Occidental Petroleum's production allowance from 700,000 barrels per day (b/d) to 320,000 b/d, ostensibly as a conservation measure. At the time of the cut, Occidental was producing at about 400,000 b/d. The Libyan Government may take further action against Occidental or the other US companies in an effort to influence US policy in the Near East. For the immediate future, however, the current unresolved crisis in the ruling Revolutionary Command Council will probably postpone any major confrontation.

Kuwait

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Venezuela

INR/Economic
Director : J. Bardi
Analyst : C. Cecchini
Extension : 21187
Released by:

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Department of State

TELEGRAM

CONFIDENTIAL 898

PAGE 01 TRIPOL 01174 181633Z

47
ACTION AF-18

INFO OCT-01 EUR-20 E-11 PM-06 NSC-10 SS-14 RSC-01 CIAE-00
INR-06 NSAE-00 L-03 OMB-01 OEP-01 [illegible]C-12 PRS-01
COM-08 INT-08 H-02 PSR-01 /124 W
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FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 9045
INFO AMEMBASSY LONDON
AMEMBASSY ROME

C O N F I D E N T I A L TRIPOLI 1174

SUBJECT: PETROLEUM NOTES

REF: STATE 128545

1. IN COURSE OF DISCUSSING OTHER TOPICS WITH AMBASSADOR AND ECON OFFICER [redacted] PASSED ON FOLLOWING:

2. [redacted] ITALIANS HAVE CAVED IN" AND HAVE AGREED TO 50-50 PARTICIP[illegible]N FORMULA (AS WE HAVE LONG KNOWN AND REPORTED FOR SOME MONTH[illegible]W.)

3. [redacted] LARG HAS NOT CONTACTED COMPANY SINCE APRIL 29 JALLUD FEELER TO COMPANY (TRIPOLI 7801) REGARDING COMPENSATION FOR NATIONALIZED BP CONCESSION. [redacted] SPOKE BRIEFLY AT TRIPOLI AIRPORT WITH PETROLEUM PRESS SERVICE CORRESPONDENT PEGGY EVANS. SHE DESCRIBED VERY PLEASANT AND INFORMATIVE INTERVIEW WITH AGEC CHAIRMAN NA[illegible]AS, FOLLOWED BY VISIT HE PERSONALLY ARRANGED TO SARIR FIELD. SHE RECEIVED RED CARPET TREATMENT AND NA[illegible]AS WAS PARTICULARLY KEEN (I) IMPRESS UPON HER

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Department of State TELEGRAM

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PAGE 02 TRIPOL 01174 181632Z

DEGREE TO WHICH LIBYANS RUNNING AGEC AND BJ GIVE LIE TO RUMORS THAT ANY RUSSIANS EMPLOYED BY AGEC. EVANS WAS IMPRESSED WITH DEDICATION OF LIBYANS AND APPARENT EFFICIENCY WITH WHICH AGEC IS BEING RUN. COMPANY IS NOW OPERATING [ ] WITH APPROXIMATELY SEVENTEEN EXPATRIATES IN THE FIELD, TWENTY IN BENGHAZI AND FIFTEEN AT THE TOBRUK TERMINAL. THERE ARE NO SOVIETS IN EVIDENCE.

4. [ ]

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